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ALBERTA PUBLIC SECTOR PENSIONS:

PRINCIPLES FOR PENSION REFORM

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ALBERTA TREASURY
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During the course of its pension review, the government identified the following problems which must be addressed.

- A large and growing unfunded liability threatens the security of pension benefits.
- Contribution rates are too low to cover current service costs.
- The discretionary COLA has meant that a significant part of the pension benefit is not defined and COLA adjustments have not been funded.
- The low interest rate paid on contribution refunds, and the limited portability provisions have been a source of dissatisfaction among plan members, particularly female employees who tend to change employment more frequently.
- The federal tax rules governing retirement savings plans will apply to these plans on January 1, 1992. All of the plans must be amended to some degree to comply with the federal rules.

The measures being proposed to solve these problems will make the plans financially sound and modernize benefits without disrupting the fundamental benefit structure.

FUNDAMENTAL OBJECTIVES OF REFORM PROPOSALS

The first objective is to fix the plans' financing so that the benefits promised members will be secured by assets rather than depending on future taxpayers. This would be done by the following steps.

- Annual pension costs will be covered by employee and employer contributions, with adjustments made as necessary to ensure funding is adequate, based on regular actuarial valuations. In addition, each pension plan's assets and liabilities will be accounted for separately to enable members to assess the financial status of the individual plans after 1991.

- COLA will move from discretionary payments to a guarantee at a set percentage of inflation.

- The government, employers and employees will each pay a surcharge for the unfunded liability which has accrued in respect of pre-1992 service, including liabilities accruing as a result of the COLA guarantee.

- Total contribution rate increases will be phased in over four years.

- The Members of the Legislative Assembly Pension Plan will be removed from the Pension Fund and the Fund reimbursed for past pension payments to MLAs in excess of their contributions.

The second objective is to provide enhanced portability benefits. The measures proposed are:

- Participants will receive market rate of interest on contributions.

- Cash value of benefit accruals will be transferred to a locked-in RRSP upon termination of employment after 5 years of service. This improved termination benefit will apply to service after January 1, 1992.

The third objective is to ensure all plans will conform to the Revenue Canada rules. The benefit adjustments will apply to service earned after 1991. The key measures are:

- Rules will be applied governing maximum annual pension accruals.

- Age and service requirements for receiving unreduced pensions will be applied. Members will not be allowed to retire any earlier than currently permitted, however.

In addition to changes in these three areas, there will be some other changes, including:

- Administrative and housekeeping changes will be made to improve the operation of the plans.

- Proper actuarial reduction factors will be applied when a member wishes to retire before meeting the eligibility rules for an unreduced pension.

- Consideration is being given to elimination of reciprocal agreements and prior service purchase, with the proviso that transfers between some of the Alberta family of plans would be allowed on a pro-rated basis.

TIMING AND LEGISLATIVE PROCESS

Interim legislation is proposed for the current sitting of the Legislature to enable the government to ensure compliance with the federal tax rules by regulation. The legislation will require that these regulations be replaced within 6 to 12 months by statutory provisions. Over the summer and early fall, consultations can take place on the pension reform proposals. Legislation will follow, either in the fall, if there is a fall sitting of the Legislature, or next spring.